

Message Text

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PAGE 01 KINGST 03361 01 OF 02 232210Z
ACTION ARA-14

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FM AMEMBASSY KINGSTON

TO SECSTATE WASHDC IMMEDIATE 5960

C O N F I D E N T I A L SECTION 1 OF 2 KINGSTON 3361

E.O. 11652: GDS

TAGS: EFIN, EAID, JM

SUBJECT: IMF/GOJ NEGOTIATIONS AT IMPASSE

1. SUMMARY: ON JUNE 23 MINISTER OF STATE FOR PLANNING RICHARD FLETCHER BRIEFED CHARGE ON MOST RECENT IMF NEGOTIATIONS WHICH ENDED IN KINGSTON JUNE 22. ACCORDING FLETCHER NEGOTIATIONS NOW AT IMPASSE OWING INTRANSIGENCE IMF TEAM ON TWO CRITICAL ISSUES. AS A RESULT FLETCHER, TOGETHER WITH DEPUTY PRIME MINISTER AND FINANCE MINISTER DAVID COORE AND BANK OF JAMAICA GOVERNOR G. ARTHUR BROWN, WILL BE IN WASHINGTON EARLY NEXT WEEK FOR MEETINGS WITH IMF SENIOR OFFICIALS (AS WELL AS, HOPEFULLY, CERTAIN USG OFFICIALS) IN EFFORT TO BREAK CURRENT IMPASSE. END SUMMARY.

2. FLETCHER TOLD CHARGE THAT IMF/GOJ EFFORTS TO REACH AN AGREEMENT NOW AT AN IMPASSE BECAUSE OF ONE BASIC AND ONE SECONDARY ISSUE. THE BASIC ISSUE IS CHARACTER OF TRADE-OFFS BETWEEN BVCETION#AND UNEMPLOYMENT. TRADITIONAL SOLUTION TO UKVEICA'S FOREIGN EXCHANGE AND MOST OTHER ECONOMIC PROBLEMS WOULD BE TO DEPRESS THE ECONOMY BY CUTTING EXPENDITURES, ETC. HOWEVER, THIS APPROACH WOULD RESULT IN EXPLOSIVE UNEMPLOYMENT. FLETCHER NOTED THAT UNEMPLOY-
CONFIDENTIAL

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PAGE 02 KINGST 03361 01 OF 02 232210Z

MENT ALREADY IS SOMEWHERE BETWEEN 25-30 PERCENT, IS RISING AND WOULD CERTAINLY GREATLY EXCEED 30 PERCENT IF IMF INSISTENCE ON ZERO DEFICIT FINANCING IS ACCEPTED. IN GOJ'S JUDGMENT, ACCORDING FLETCHER, THE MINIMUM ACCEPTABLE LEVEL OF BANK OF JAMAICA BUDGET FINANCING IS '\$100 MILLION DOLLARS (AS COMPARED TO J\$21#18)JWROHRY #

WHEREAS IMF

TEAM LEADER SANSON IS INSISTING THAT THIS FINANCING BE HELD TO ZERO. FLETCHER ALSO POINTS OUT THAT GOJ IS PREPARED TO HOLD BUDGET EXPENDITURES TO LAST YEAR'S LEVELS WHICH, IN LIGHT INFLATION, IS IN FACT A SIGNIFICANT REDUCTION. THE J\$100 MILLION BANK OF JAMAICA FINANCING, FLETCHER MAINTAINS, REPRESENTS IN HUMAN TERMS 40,000 - 50,000 JOBS AT MINIMUM -- AND PROBABLY CONSIDERABLY MORE GIVEN NEGATIVE MULTIPLIER EFFECT OF CUTTING BACK TO LEVELS INSISTED UPON BY IMF. FLETCHER INSISTS THAT WHILE ANY INCREASE IN UNEMPLOYMENT IS POLITICALLY AND SOCIALLY UNACCEPTABLE, THE TEN PERCENT INFLATION BDTE OF RECENT PAST OFFERS MORE FLEXIBILITY ON THAT SIDE OF THE COIN. MOREOVER, FLETCHER SAID, THE J\$100 MILLION BANK OF JAMAICA FINANCING WY# THAT MOST INCREASE INFLATION BY 4-5 POINTS -- A STILL MANAGEABLE AND ACCEPTABLE INFLATION RATE RELATIVE TO EXPERIENCE ELSEWHERE AND IN TERMS OF JAMAICA'S OWN RECENT PAST. FLETCHER ADDED INCREASED UNEMPLOYMENT ARISING FROM IMF CONDITIONS ALSO WOULD HAVE NEGATIVE IMPACT ON CURRENT EFFORTS TO INCREASE AGRICULTURAL PRODUCTION, I.E. MARKET DEMAND WOULD FALL WITH INCREASING UNEMPLOYMENT. NONETHELESS, FLETCHER STRESSED, GOJ WOULD KEEP UNDER CONSTANT REVIEW THE RELATIVE INFLATION/UNEMPLOYMENT SITUATION AND ACT AS NECESSARY TO PREVENT RUNAWAY INFLATION.

CONFIDENTIAL

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PAGE 03 KINGST 03361 01 OF 02 232210Z

3. THE SECONDARY BUT STILL IMPORTANT ISSUE IS MOVEMENT FROM THE PRESENT DUAL EXCHANGE RATE TO A SINGLE RATE. ACCORDING FLETCHER IMF TEAM INSISTS THAT THERE BE A PHASED SWITCH OF ALL ITEMS CURRENTLY UNDER THE OLDER RATE TO THE NEW RATE BETWEEN JULY 15 AND MARCH 15

OF NEXT YEAR. FLETCHER SAID THAT FOR BOTH POLITICAL AND ECONOMIC REASONS THIS APPROACH IS NOT ACCEPTABLE. POLITICALLY PRIME MINISTER MANLEY ALREADY HAS GONE FURTHER IN AREA OF DEVALUATION THAN WAS EXPEDIENT. ANY BACKING DOWN OF HIS COMMITMENT TO MAINTAIN BASIC FOOD STUFFS AND VARIOUS OTHER ITEMS UNDER BASIC RATE WOULD SPELL POLITICAL DISASTER. RATHER, GOJ WILL PLACE UNDER CONTINUOUS REVIEW ALL ITEMS UNDER BASIC RATE AND SHIFT ITEMS FROM THAT RATE TO NEW RATE WHENEVER IT CAN BE DEMONSTRATED THAT SUCH ACTION WOULD HAVE THE EFFECT OF INCREASING PRODUCTION. AS A PRACTICAL MATTER, INTERPRETATION WOULD BE GENEROUS, I.E. PROJECTIONS OF INCREASED PRODUCTION (E.G. WITHIN BAUXITE INDUSTRY) WOULD PROVIDE SUFFICIENT REASON TO MAKE THE SHIFT.

4. FLETCHER SAID THAT AGREEMENT HAD BEEN WORKED OUT ON AN INCOMES POLICY BUT, AS A PRACTICAL MATTER, THE AGREED INCOMES POLICY WOULD NOT BE ENFORCEABLE IF THE IMF IS SUCCESSFUL IN INSISTING THAT IMPORTED FOOD STUFFS BE MOVED FROM THE BASIC RATE TO THE NEW EXCHANGE RATE WITH CONSEQUENT SHARP INCREASES IN FOOD PRICES.

5. AT THIS POINT FLETCHER COMMENTED THAT SANSON DID NOT REALLY UNDERSTAND THE BASIC ISSUE AND AVOIDED IT BY DEVOTING TOO MUCH ATTENTION TO SHORT TERM SHORT FALLS IN FOREIGN EXCHANGE AND THE MATHEMATICS OF HOW HOSE SHORTFALLS WOULD BE MET. THE REAL ISSUE FACING

NOTE BY OC/T: # AS RECEIVED, CORRECTION TO FOLLOW.
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PAGE 04 KINGST 03361 01 OF 02 232210Z

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PAGE 01 KINGST 03361 02 OF 02 242050Z
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C O N F I D E N T I A L SECTION 2 OF 2 KINGSTON 3361

C O R R E C T E D C O P Y-TEXT LINE 3

THE GOJ IS THE BALANCE TO BE ACHIEVED BETWEEN INFLATION AND UNEMPLOYMENT, I.E. THE DEGREE OF SOCIAL UNREST THE GOJ MUST BE PREPARED TO ACCEPT IN ORDER TO SATISFY THE IMF VIS-A-VIS ITS MORE TRADITIONAL CONCERNS AND SOLUTIONS.

6. FLETCHER ALSO SAID THAT THERE HAD BEEN SOME DISCUSSION AT "HIGH LEVELS" OF THE GOJ ON THE POSSIBILITY OF SIMPLY AGREEING TO ANYTHING THAT WOULD SATISFY THE IMF -- IN FULL RECOGNITION (PROBABLY ON BOTH SIDES) THAT SUCH AN AGREEMENT WOULD NOT BE HONORED OVER THE LONG TERM, AND PROBABLY NOT EVEN IN THE SHORT TERM. HOWEVER, GOJ HAD CATEGORICALLY REJECTED THAT COURSE. IT WOULD ONLY RESULT IN EVEN MORE SERIOUS PROBLEMS WITH THE IMF DOWN THE PIKE -- NOT TO MENTION COMMERCIAL BANKS AND OTHER SOURCES OF CREDIT. THEREFORE, "WE WILL NOT SIGN ANYTHING THAT WE CANNOT IN GOOD FAITH EXPECT TO HONOR".

7. COMMENTING ON SANSON'S ROLE IN NEGOTIATIONS, FLETCHER SAID THAT HE IS "COMPLETELY INTRANSIGENT AND CONFIDENTIAL

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PAGE 02 KINGST 03361 02 OF 02 242050Z

UNSYMPATHETIC, AND CONSISTENTLY UNABLE OR UNWILLING TO BACK UP THE PRINCIPLES HE PRESSES WITH SPECIFIC ECONOMIC DATA SUPPORTIVE OF HIS VIEWS". THE SITUATION IS NOW SUCH GOJ WILL QUIETLY ASK IMF, DURING THE MEETINGS NEXT WEEK, TO REPLACE SANSON IF NEGOTIATIONS ARE TO CONTINUE. FLETCHER ADMITTED THAT THERE WILL ALSO HAVE TO BE A "CHANGE OF FACES" ON THE JAMAICAN SIDE. FLETCHER SAID THAT PERHAPS ONE OF THE REASONS SANSON IS SO UNSYMPATHETIC AND INTRANSIGENT IS THAT HE HAD THOUGHT FROM THE LAST ROUND OF TALKS THAT HE HAD THE GOJ'S AGREEMENT TO MOVE TO ZERO BANK OF JAMAICA FINANCING, THAT MISUNDERSTANDING AROSE BECAUSE OF "UNAUTHORIZED STATEMENTS" MADE BY G. ARTHUR BROWN, BANK OF JAMAICA GOVERNOR. ACCORDING TO FLETCHER, BROWN WAS "WHEELING AND DEALING ON HIS OWN" AND ACTING CONTRARY TO DECISIONS TAKEN BY JAMAICA ECONOMIC COUNCIL SUBSEQUENTLY RATIFIED BY GOJ CABINET. AS A CONSEQUENCE, BROWN WILL HAVE TO DROP OUT OF THE NEGOTIATIONS, ALTHOUGH HE MAY BE ASKED TO REMAIN ON AS GOVERNOR FOR A FEW MORE MONTHS. (AS AN ASIDE FLETCHER SAID THAT PM MANLEY HOPES RECRUIT CARICOM SECRETARY GENERAL ALISTAIR MCINTYRE AS BROWN'S REPLACEMENT.)

8. FLETCHER SAID THAT HE, COORE AND BROWN WILL LEAVE FOR WASHINGTON THIS SUNDAY AND HAVE APPOINTMENTS WITH IMF DIRECTOR ROBICHEK AND MANAGING DIRECTOR WHITTEVEEN ON TUESDAY. FLETCHER ALSO HOPES TO SEE SOME OF HIS "OLD CRONIES" IN THE WORLD BANK NEXT WEEK TO PROMOTE A PROGRAM LOAN, WHILE ALL THREE WILL BE SEEKING MEETINGS WITH DONOR LION FROM AID AND VARIOUS STATE OFFICIALS THROUGH JAMAICAN EMBASSY IN WASHINGTON. FLETCHER SAID THAT AT MEETINGS WITH STATE/AID OFFICIALS THEY INTEND TO PRESS FOR USG SUPPORT VIS-A-VIS IMF, UPDATE WASHINGTON ON JAMAICA'S ECONOMIC SITUATION, AND SEEK INFORMATION

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PAGE 03 KINGST 03361 02 OF 02 242050Z

ON USG DECISION-MAKING RE AN EXPANDED ASSISTANCE PROGRAM
FOR JAMAICA.

9. COMMENT: WHILE THERE MAY BE MERITS IN BOTH DIRECTIONS ON THE ECONOMIC ISSUES INVOLVED IN THE CURRENT IMF/GOJ "IMPASSE", WE AGREE WITH FLETCHER'S ASSESSMENT THAT ANY SIGNIFICANT INCREASE IN UNEMPLOYMENT WOULD EASILY RESULT IN SEVERE SOCIAL/POLITICAL UNREST, AND A SHARP INCREASE IN VIOLENT CRIME. IN FACT, WE HAVE SEEN IN RECENT WEEKS AN INCREASE IN CRIME APPARENTLY OCCASIONED BY A COMBINATION OF THE TERMINATION OF THE STATE OF EMERGENCY, RISING UNEMPLOYMENT AND EMERGING SHORTAGES OF CONSUMER NECESSITIES. FLETCHER IS ALSO CORRECT IN ASSERTING THAT PM MANLEY'S CREDIBILITY WITHIN JAMAICA IS VERY MUCH AT STAKE IN THE PRESENT NEGOTIATIONS. ANY SHARP REDUCTION IN WPA TYPE PROGRAMS AND SOCIAL SERVICES OCCASIONED BY ZERO BOJ FINANCING WOULD PROVIDE THE RADICAL LEFT WITH A FIELD DAY. SIMILARLY, ANY BACK DOWN BY THE GOJ ON ITS COMMITMENT TO HOLD FOOD PRICES AT A CONSTANT LEVEL THROUGH MANIPULATION OF THE BASIC RATE WOULD CREATE NEW WAGE DEMANDS AND UNDOUBTEDLY MASSIVE INDUSTRIAL UNREST WHILE ALSO DANGEROUSLY ERODING POPULAR CONFIDENCE IN THE GOVERNMENT.

10. SEPTTEL JUST SENT PROVIDES IMF TEAM'S VIEW OF CURRENT SITUATION. WE ARE STRUCK BY THE SHARP DIFFERENCE BETWEEN FLETCHER'S DESCRIPTION OF THE CURRENT STATUS OF THE NEGOTIATIONS, AND SANSON'S MORE OPTIMISTIC COMMENT THAT "THERE HAS BEEN PROGRESS".
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